



Texas Manufacturing Outlook Survey

DALLAS FED

July 28, 2014

TEXAS MANUFACTURING ACTIVITY PICKS UP PACE AGAIN

Texas factory activity increased again in July, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 15.5 to 19.1, indicating output grew at a faster pace than in June.

Other measures of current manufacturing activity reflected significantly stronger growth in July. The new orders index doubled from 6.5 to 13. The capacity utilization index also posted a strong rise, moving to 18 from 9.2 in June. The shipments index rose 12 points to 22.8, reaching its highest level since January 2013. The July readings for these indexes were all more than twice their 10-year averages, suggesting notably robust manufacturing growth.

Perceptions of broader business conditions were more optimistic this month. The general business activity index edged up from 11.4 to 12.7, pushing to its highest level in 10 months. The company outlook index rose 3 points to 11.3.

Labor market indicators reflected continued employment growth and longer workweeks. The July employment index posted a second robust reading, although it edged down from 13.1 to 11.4. Twenty-five percent of firms reported net hiring compared with 14 percent reporting net layoffs. The hours worked index edged up from 4.7 to 6.3, indicating a slightly stronger rise in hours worked than last month.

Upward pressure on prices and wages continued at about the same pace in July as in June. The raw materials price index came in at 25.4, less than a two-point change from the 27.3 June reading. The finished goods price index held steady at 7.3, and the wages and benefits index remained at 18.8. All three July index readings were very close to their 10-year averages.

Expectations regarding future business conditions remained optimistic in July. The index of future general business activity inched up to 19.8, while the index of future company outlook fell to 24.4 after reaching a multiyear high of 33.8 in June. Indexes for future manufacturing activity showed mixed movements in July but remained in solidly positive territory.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected July 15–23, and 115 Texas manufacturers responded to the survey. Firms are asked whether output, employment, orders, prices and other indicators increased, decreased or remained unchanged over the previous month.

Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. When the share of firms reporting an increase exceeds the share reporting a decrease, the index will be greater than zero, suggesting the indicator has increased over the prior month. If the share of firms reporting a decrease exceeds the share reporting an increase, the index will be below zero, suggesting the indicator has decreased over the prior month. An index will be zero when the number of firms reporting an increase is equal to the number of firms reporting a decrease. Data have been seasonally adjusted as necessary.

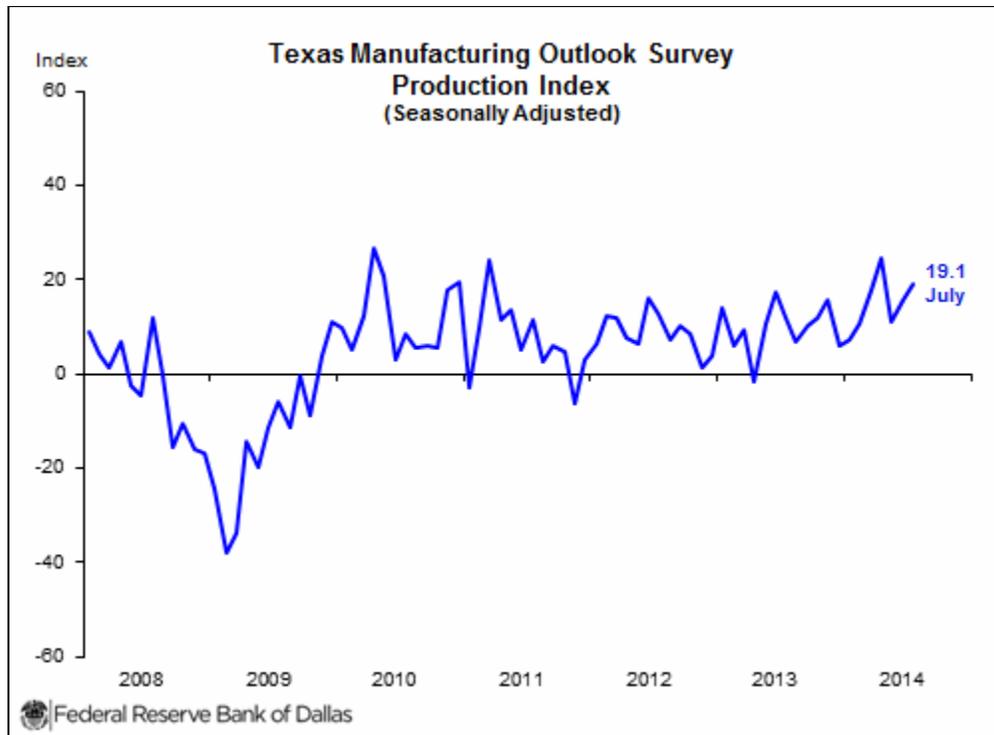
Next release: August 25, 2014

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	19.1	15.5	+3.6	Increasing	15	34.6	49.9	15.5
Capacity Utilization	18.0	9.2	+8.8	Increasing	20	31.0	56.0	13.0
New Orders	13.0	6.5	+6.5	Increasing	15	29.6	53.8	16.6
Growth Rate of Orders	15.2	1.5	+13.7	Increasing	7	28.1	59.0	12.9
Unfilled Orders	3.6	3.0	+0.6	Increasing	2	14.8	74.0	11.2
Shipments	22.8	10.3	+12.5	Increasing	15	36.5	49.8	13.7
Delivery Time	3.3	1.1	+2.2	Increasing	2	11.2	80.9	7.9
Materials Inventories	-1.1	11.2	-12.3	Decreasing	1	18.0	62.9	19.1
Finished Goods Inventories	-7.0	2.6	-9.6	Decreasing	1	13.9	65.2	20.9
Prices Paid for Raw Materials	25.4	27.3	-1.9	Increasing	60	30.4	64.6	5.0
Prices Received for Finished Goods	7.3	7.4	-0.1	Increasing	12	11.9	83.5	4.6
Wages and Benefits	18.8	18.8	0.0	Increasing	60	22.5	73.8	3.7
Employment	11.4	13.1	-1.7	Increasing	14	25.0	61.4	13.6
Hours Worked	6.3	4.7	+1.6	Increasing	7	20.9	64.5	14.6
Capital Expenditures	13.3	12.7	+0.6	Increasing	34	17.0	79.3	3.7
General Business Conditions								
Current (versus previous month)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	11.3	8.4	+2.9	Improving	14	22.5	66.3	11.2
General Business Activity	12.7	11.4	+1.3	Improving	14	22.0	68.7	9.3
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	40.1	44.3	-4.2	Increasing	65	46.0	48.1	5.9
Capacity Utilization	40.2	39.7	+0.5	Increasing	65	45.4	49.4	5.2
New Orders	41.2	41.2	0.0	Increasing	65	48.6	44.1	7.4
Growth Rate of Orders	32.0	31.2	+0.8	Increasing	65	37.5	57.0	5.5
Unfilled Orders	10.3	6.3	+4.0	Increasing	12	18.0	74.3	7.7
Shipments	43.8	42.1	+1.7	Increasing	65	51.0	41.8	7.2
Delivery Time	2.1	-1.5	+3.6	Increasing	1	11.0	80.1	8.9
Materials Inventories	-3.7	3.9	-7.6	Decreasing	1	16.5	63.3	20.2
Finished Goods Inventories	-1.8	-3.9	+2.1	Decreasing	3	13.8	70.6	15.6
Prices Paid for Raw Materials	34.2	37.5	-3.3	Increasing	64	40.7	52.8	6.5
Prices Received for Finished Goods	24.7	24.7	0.0	Increasing	25	27.5	69.7	2.8
Wages and Benefits	46.0	45.8	+0.2	Increasing	122	47.5	51.0	1.5
Employment	20.4	26.9	-6.5	Increasing	59	31.5	57.4	11.1
Hours Worked	9.8	14.0	-4.2	Increasing	14	16.7	76.4	6.9
Capital Expenditures	14.8	17.3	-2.5	Increasing	56	25.0	64.8	10.2
General Business Conditions								
Future (six months ahead)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	24.4	33.8	-9.4	Improving	64	32.7	59.0	8.3
General Business Activity	19.8	18.7	+1.1	Improving	14	29.4	61.0	9.6

*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.



COMMENTS FROM SURVEY RESPONDENTS

These comments are from respondents' completed surveys and have been edited for publication.

Fabricated Metal Manufacturing

- > Nonresidential new construction remains an erratic component of the economy. While design activity and plans are announced, actual construction is taking much longer.
- > Skilled employee turnover is getting out of control. There are too many employers chasing too few skilled workers.
- > We are currently experiencing a significant slowing in the month of July and are currently revising down our forecasts for the second half of the year. While we expect growth in the second half of the year over last year, we no longer believe we will have double-digit growth in the second half of this year.

Machinery Manufacturing

- > Several of our customers continue to grow faster than the industry in general, leading to exceptional growth for us.
- > The new construction facility boom linked to new low-cost energy feedstocks should begin benefitting our business starting early next year.
- > As a supplier of manufacturing equipment to the oilfield equipment manufacturers, we are participating in growth in petroleum exploration and production. This boom is worldwide, and we are currently exporting approximately 40 percent of our machines overseas.

Chemical Manufacturing

- > We are starting to see a plateau in manufacturing volume due to decreases and signaled decreases in orders. The European and Asian markets cooled in the second quarter, and we believe it is doubtful they will start to grow until 2015.

Nonmetallic Mineral Product Manufacturing

- > July is on track to be our busiest month ever. June was No. 2.

Computer and Electronic Product Manufacturing

- > The second quarter was a solid quarter start to finish, at or arguably slightly stronger than seasonal, but as expected. We are expecting the third quarter to come in with seasonal growth. Orders and customer pulls so far this month have started strong, and we expect at this point it will moderate as the quarter unfolds.
- > We believe it is time to boost small business incentives and reform taxes.

Food Manufacturing

- > We introduced several new products that filled gaps in our line and were well received for initial shipments. We hope to see continued reception as the retail pipeline is filled over the next few months.

- > The current record-high dairy prices are very bad for us. A strong dollar helps us.
- > We are seeing significant input cost pressure due to beef and pork shortages in the market. We are assessing whether we can push through another price increase for this year. Inflation in the food industry is definitely a factor.

Wood Product Manufacturing

- > July daily billing compared with an average of April, May and June is down by 7.5 percent. Orders for the same time period are down by nearly 10 percent.

Paper Manufacturing

- > Our sales in July are down versus June because several of our major customers shut down one or two weeks in July and we shut down one week. Our July sales to date are actually ahead of the same period last year.
- > The slow period has been worse than anticipated. We still hold a positive outlook for the future.

Miscellaneous Manufacturing

- > Oil and gas are driving Texas, not the normal everyday business.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org. The Texas Manufacturing Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tmos/.

